

A pair of black-rimmed glasses is positioned diagonally across the frame. The lenses are resting on a document that contains several columns of numbers, likely financial data or stock prices. The background is a light blue gradient.

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# U.S. and Texas Economic Outlook

## *Beyond the Fiscal Cliff: A Rocky Road*

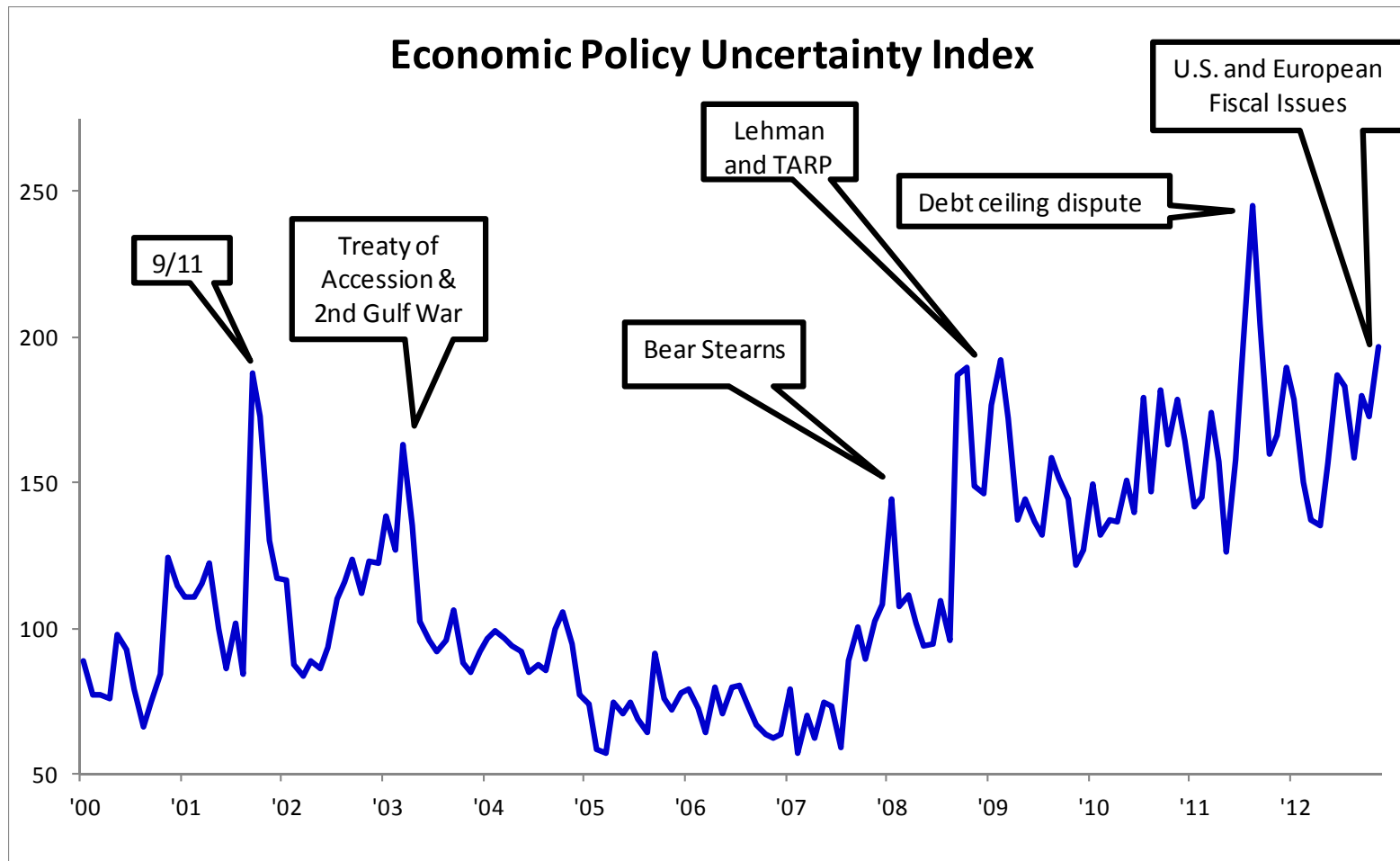
*Robert A. Dye  
Chief Economist, Comerica Bank  
February, 2013*

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# Mare Incognitum...The Sea of Uncertainty

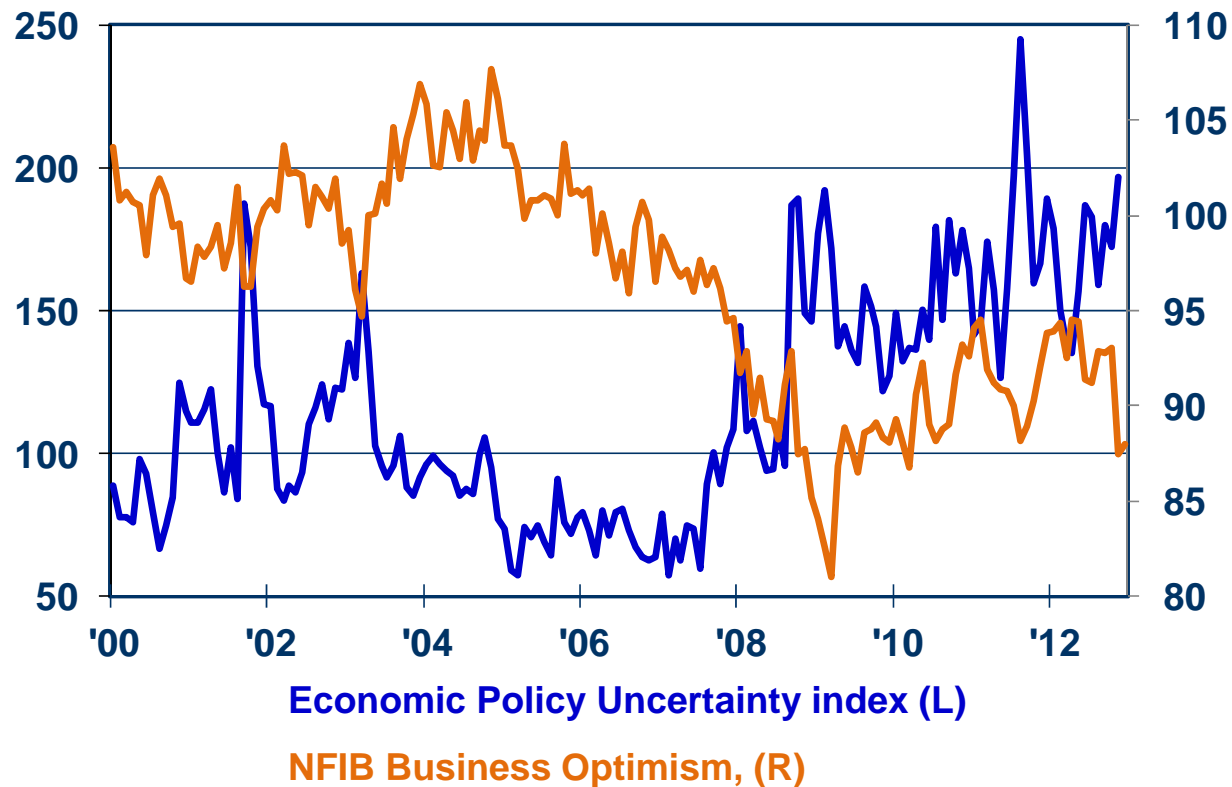
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# *EPUI Explains Persistent Weak Business Confidence*

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**Economic Policy Uncertainty Index  
and the NFIB Survey**



## **Components of NFIB Survey**

- Employment plans
- Current job openings
- Capital outlay plans
- Inventory plans
- Current inventory
- Expectations about economy
- Expectations about sales
- Expected credit conditions
- Good time to expand
- Earnings

# *Fiscal Cliff Smoothed, Road Still Rocky*

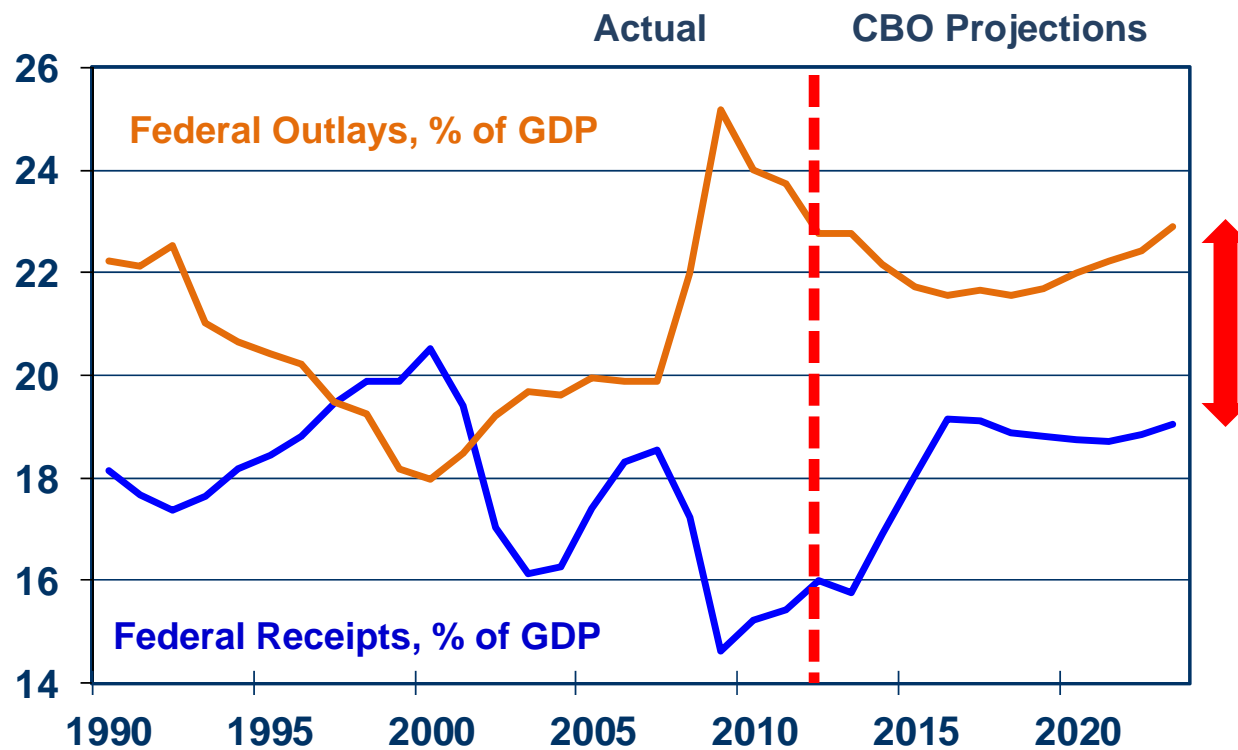
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- Obama era payroll tax cut has expired for everyone
- Increased income, capital gains, dividend taxes for the wealthy 1%
- Will add up to about \$160 billion in additional revenue in 2013
- RDPI set to fall about 3 percent annualized 2013Q1
- Debt ceiling, kicked down the road
- Federal budget sequester still unresolved (negative signs)
- Long-term entitlement spending still unresolved
- Tax reform
- Healthcare costs ramping up

# The Fiscal Imbalance

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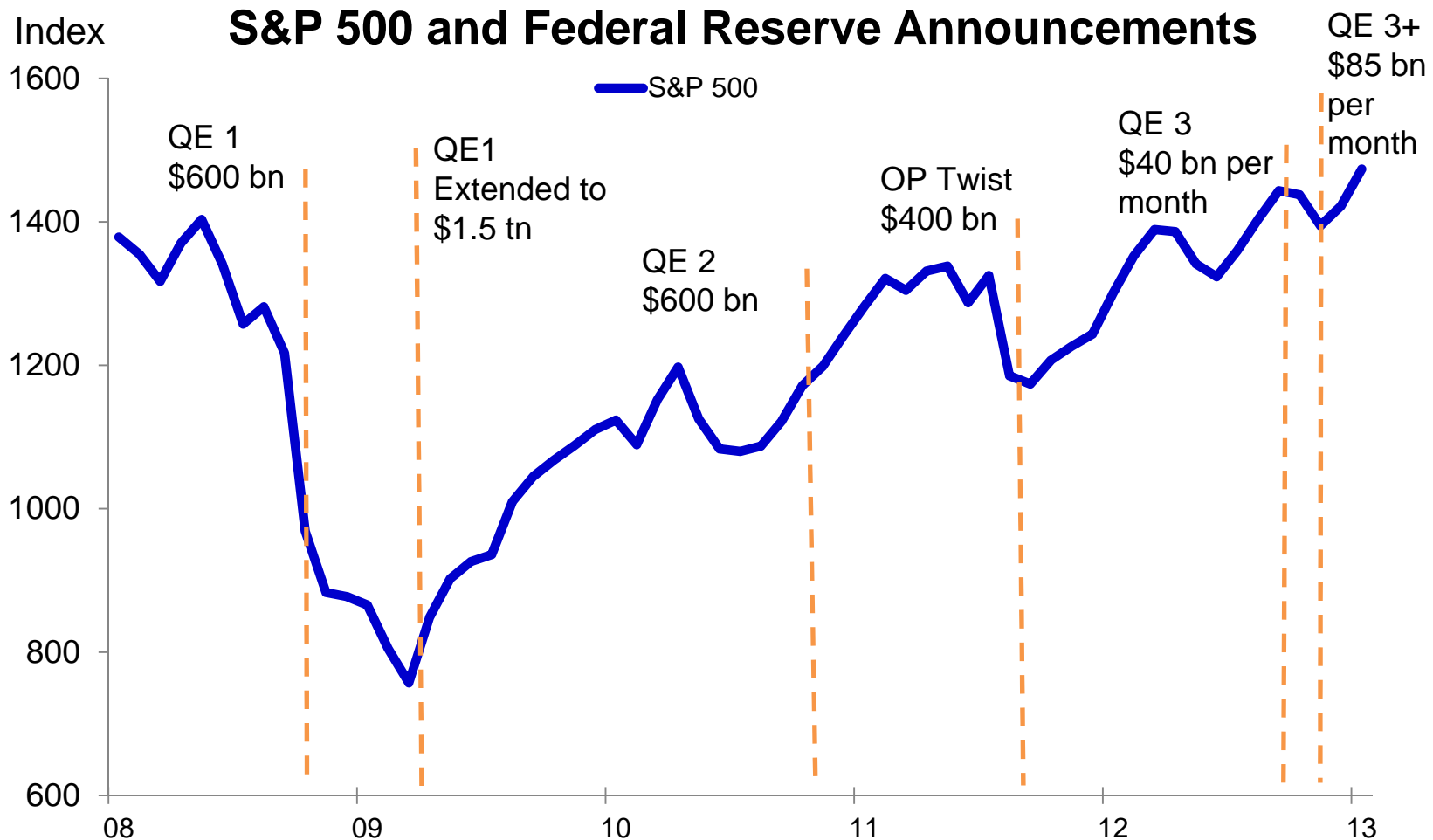
Total Federal Receipts and Outlays, Percent of GDP



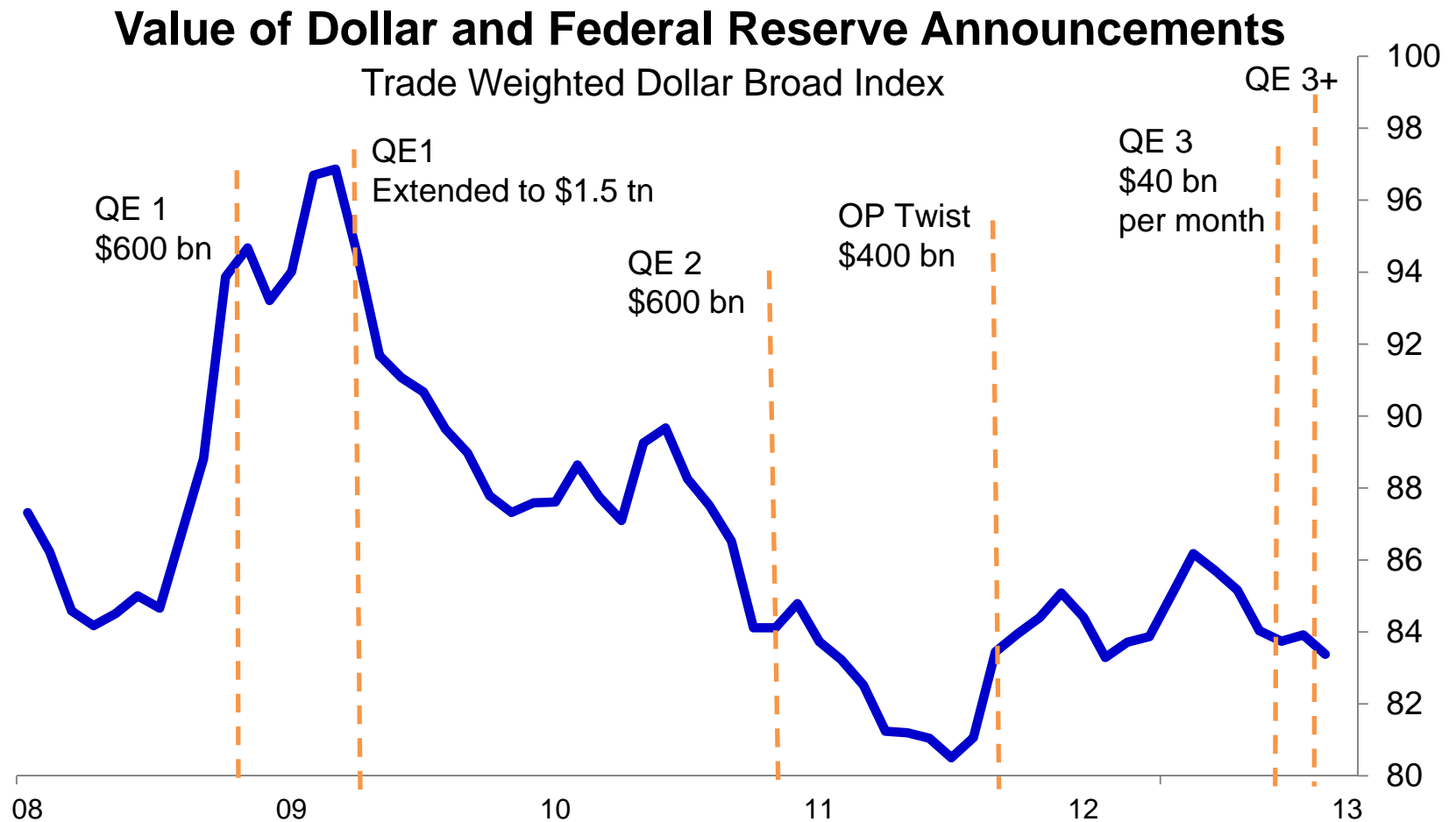


# Federal Reserve Quantitative Easing: Stoking the Stock Market...

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## ... And Devaluing the Dollar

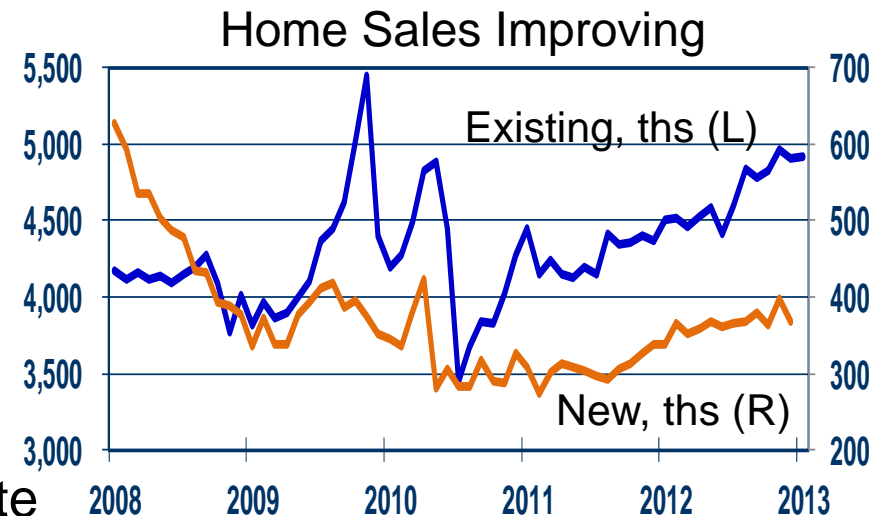




## Recent U.S. Data Is Mixed

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- 2012Q4 weak at -0.1%, expect upward revision
- Jan. payroll employment +157k
- Unemployment rate stuck at 7.9%
- House sales
- Home prices
- Home construction
- Jan. auto sales 15.2 million unit rate
- Jan. ISM MF Survey 53.1 percent

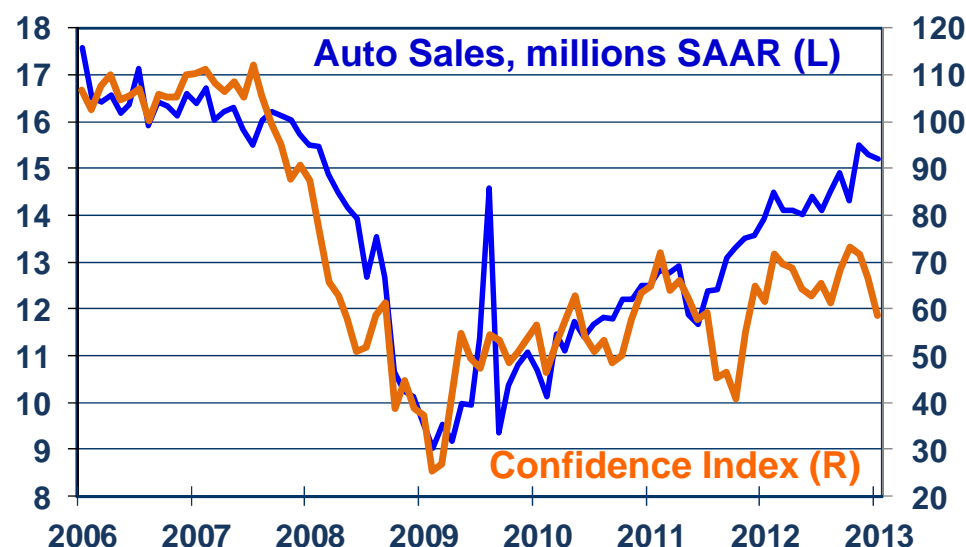


# Early 2013 Helped by Household Sector, Hurt by Uncertainty and Fiscal Drag

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- Vehicle sales, Sandy
- Housing sector strengthening
- Other credit fueled purchases
- Labor markets
- Consumer confidence shaky
- Asia
- U.S. policy uncertainty
- Fiscal drag
- Europe continues to melt

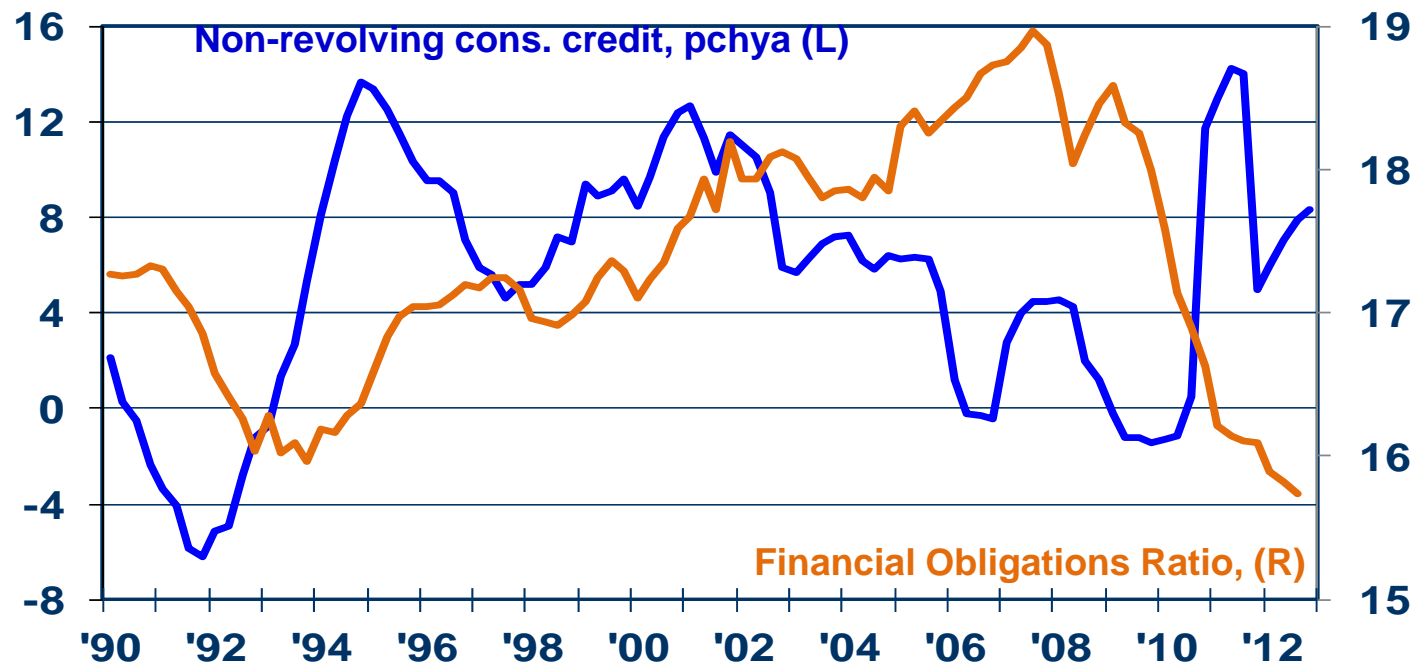
## Auto Sales and Consumer Confidence



# Consumer Deleveraging...And Releveraging

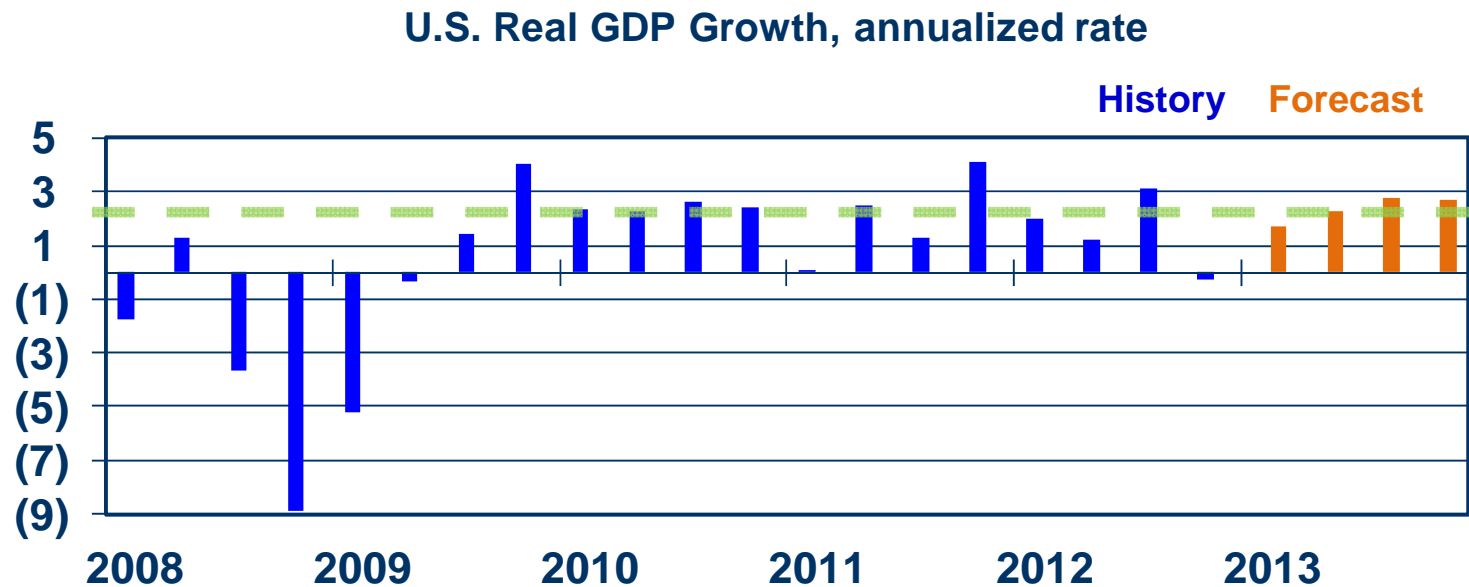
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Non-revolving Consumer Credit and  
Financial Obligations Ratio



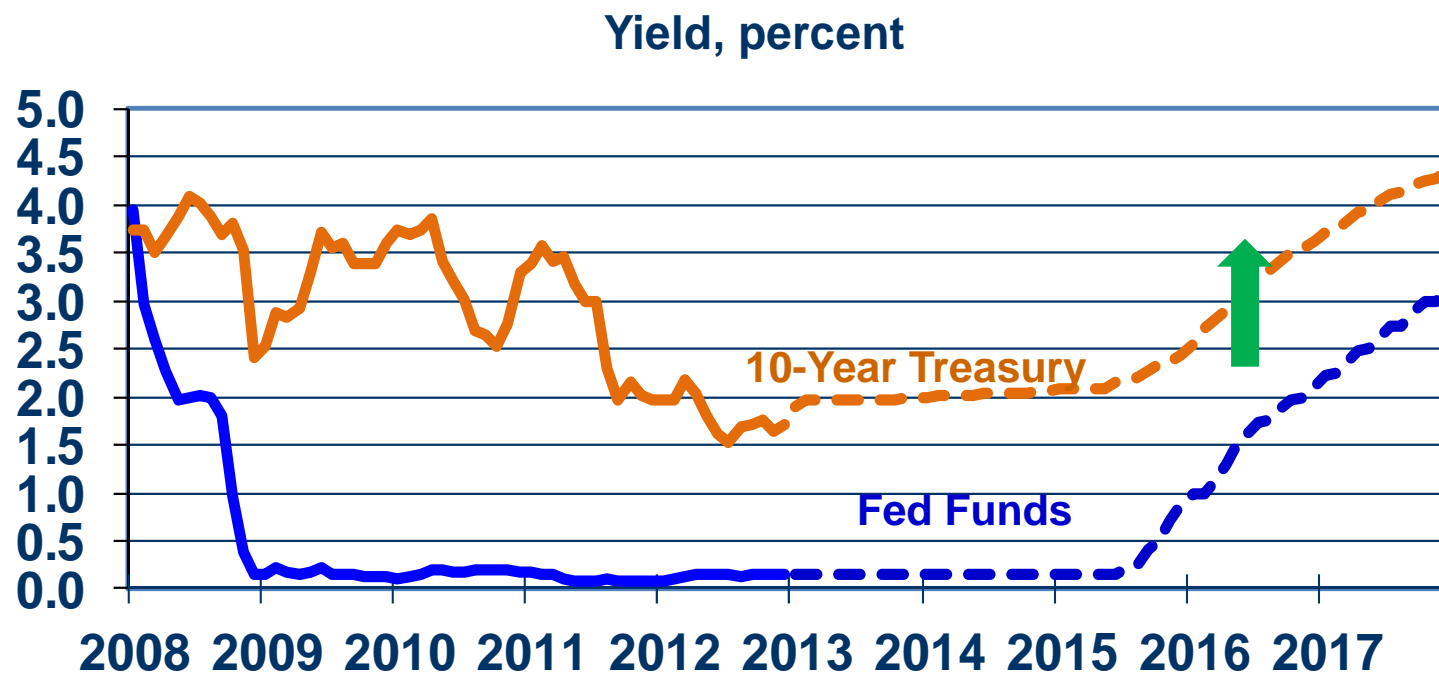
# Forecast for 2013, Fiscal Tightening Versus Monetary Easing

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# *Interest Rates Face Upward Pressure As Flight to Quality and Fed Policy Eventually Unwind*

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# Forecast Risks

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## Downside Risks

- Federal spending sequester
- Consumer spending
- Job growth
- Biz investment
- Eurozone and Asia
- More “transitory” factors/oil price
- Healthcare costs
- Housing market

## Upside Risks

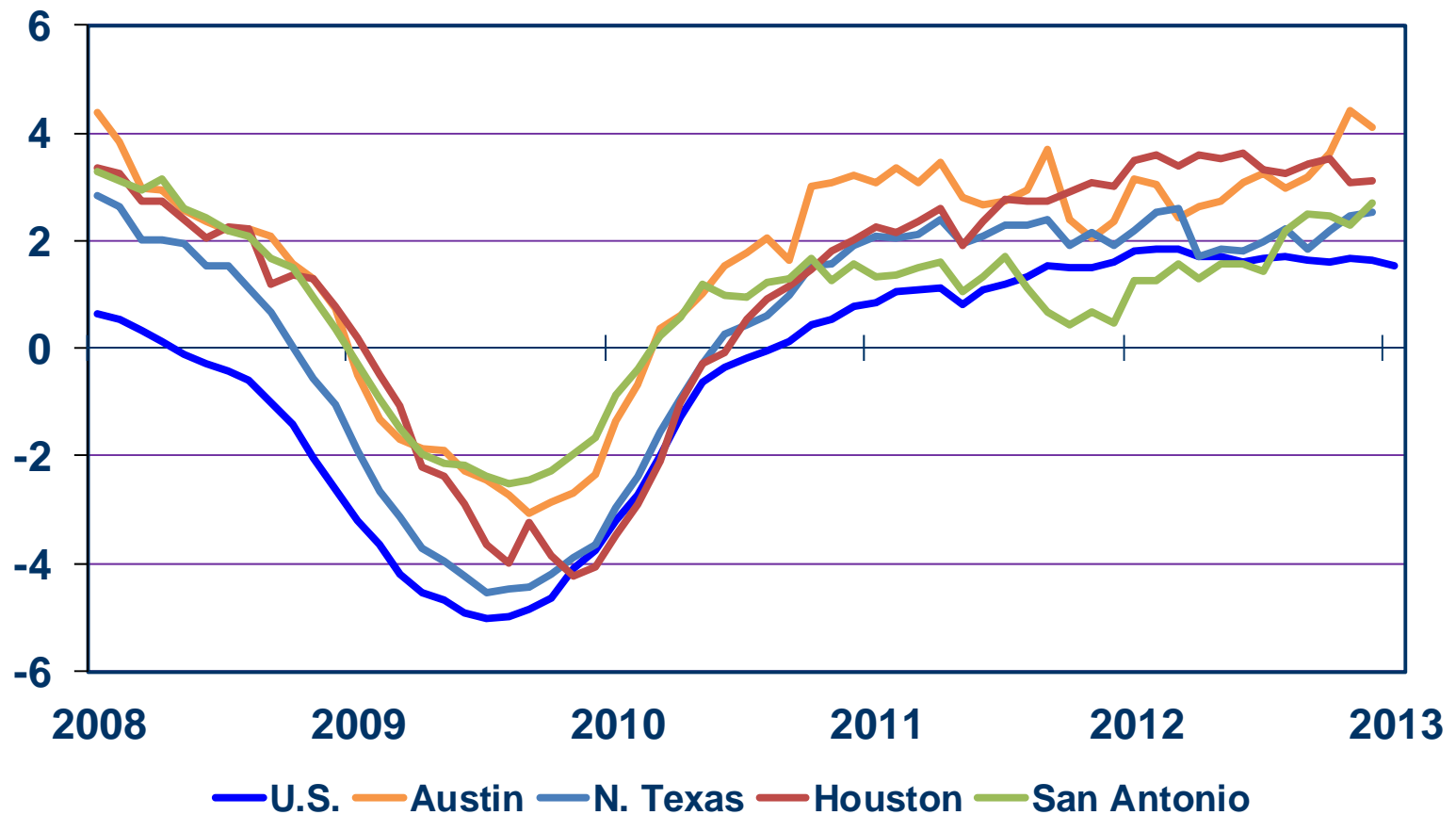
- QE3 gains traction
- Equity markets rally
- Jobs!
- Construction
- Households unleash pent-up demand
- Low interest rates/investment boom
- Energy/manufacturing renaissance
- Technology



# Texas Metro Areas Outperforming

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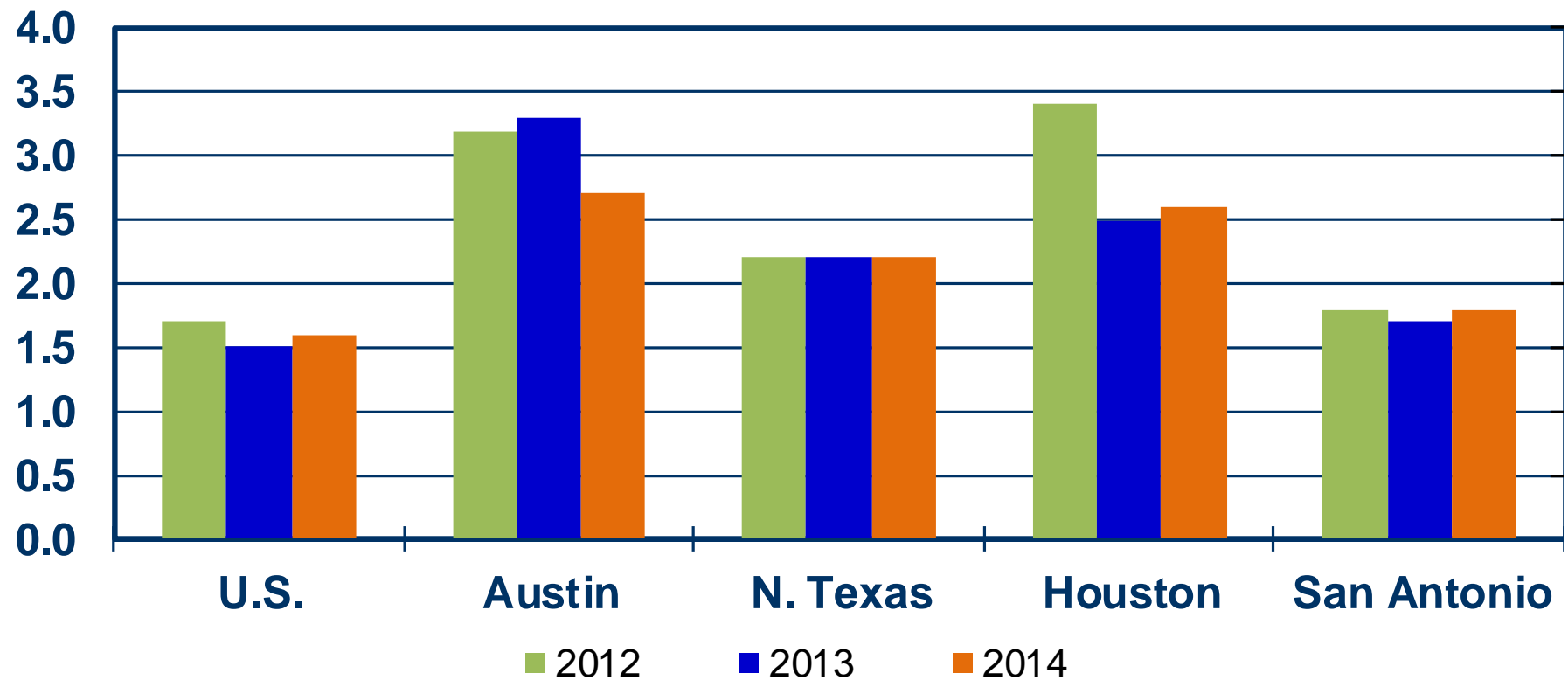
Payroll Employment, percent change year ago



# Texas Employment Forecast

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Annual Percent Change 2012, 2013, 2014



# Robert A. Dye

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# 2013 Global Financial Market Outlook

Dennis A. Johnson, CFA  
Chief Investment Officer



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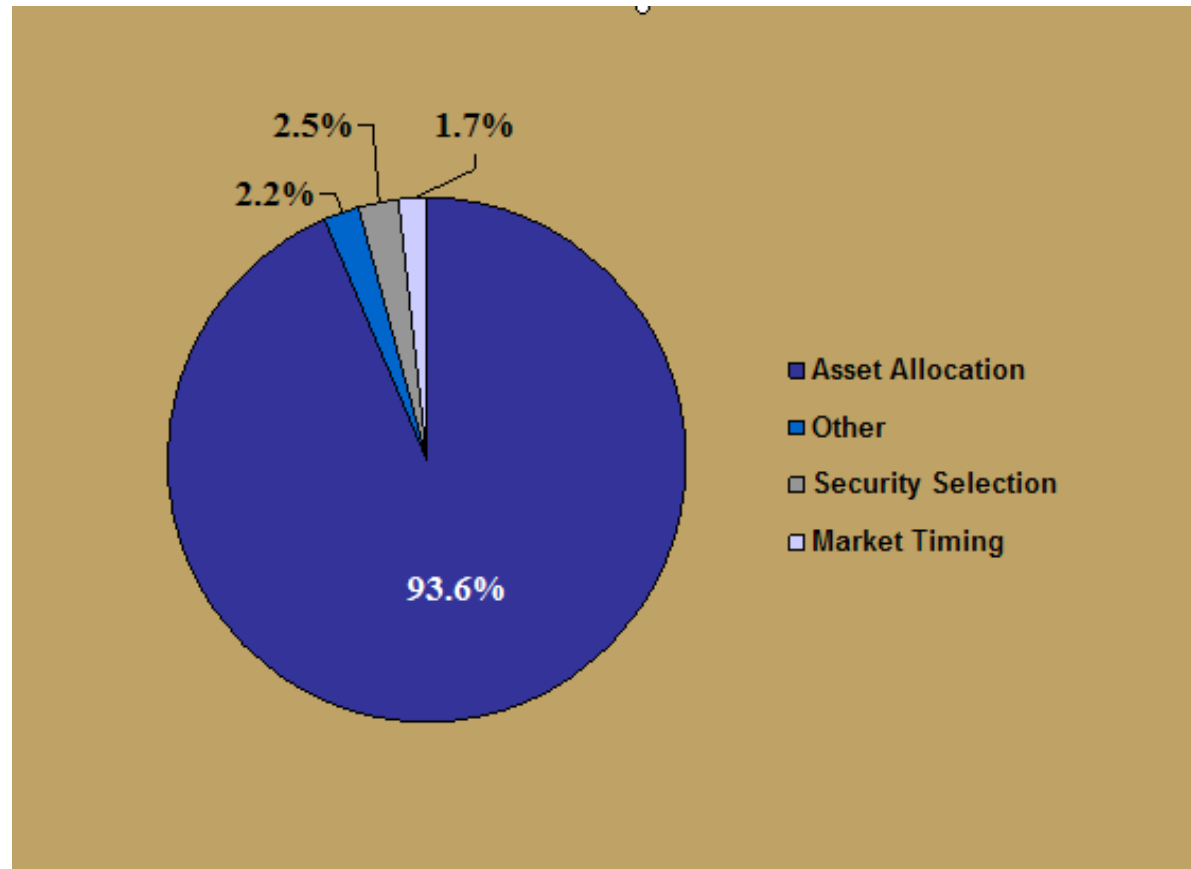


# Asset Allocation



# Asset allocation is the most important decision we can make.

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Source: Brinson, Hood, and Beebower – Financial Analysts Journal, January/February 1995.



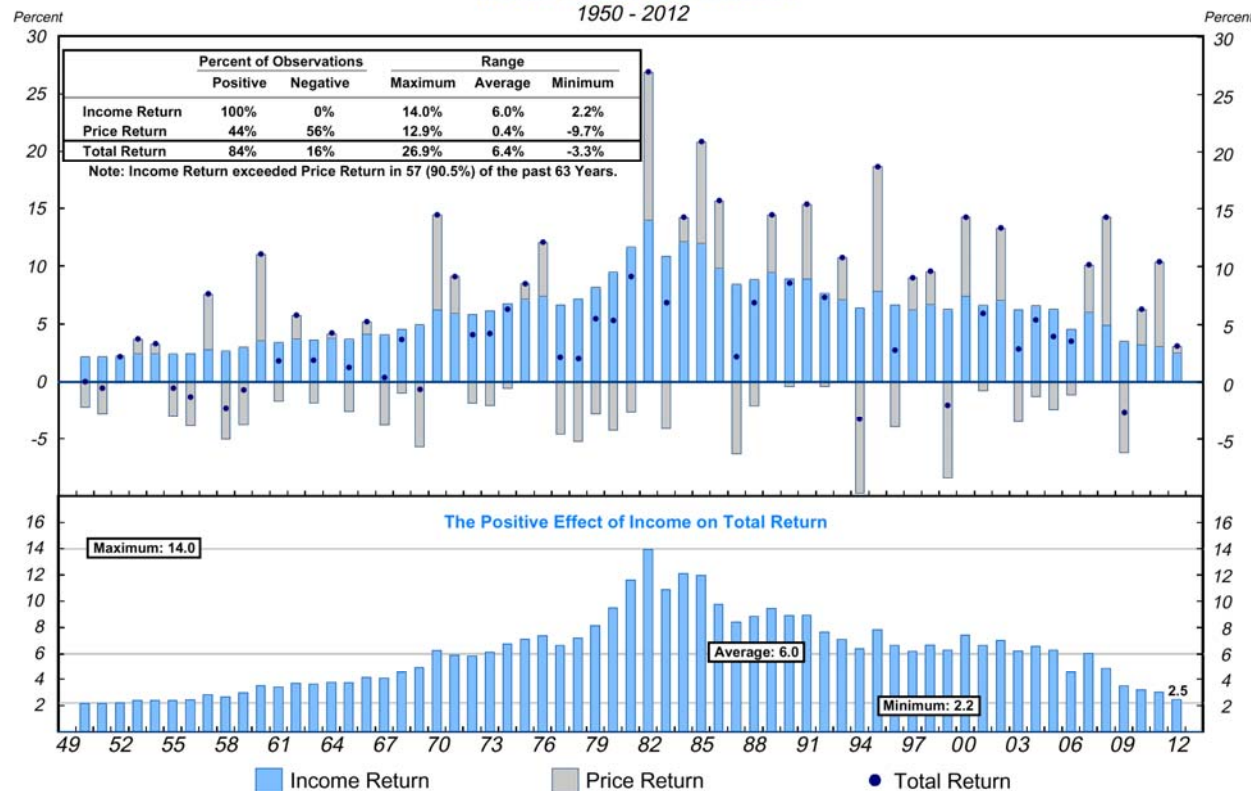
# Income will be the primary source of the return from investing in bonds.

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## Components of Return - Treasury Bonds

*Income, Price, Total Return*

1950 - 2012



Notes: Treasury Bonds are a composite index composed of Treasuries with maturities longer than 1 year. The income return includes reinvestment return.

Example: For 2012, income return (2.5%) plus price return (0.6%) equaled total return (3.1%).

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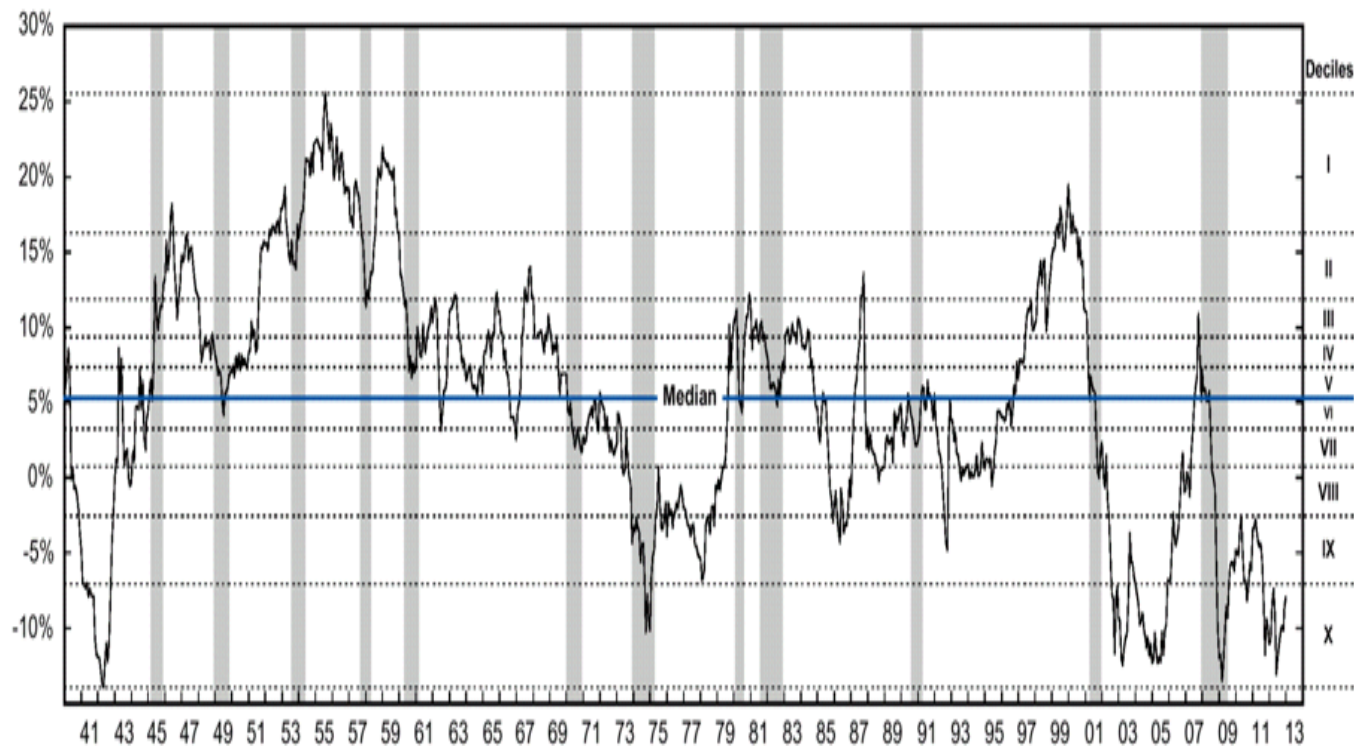


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The equity market is in the early stages of a cyclical improvement in performance relative to the bond market.

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**Return Spreads: S&P 500 Minus Long-Term Treasuries**  
*5 Year Annualized Returns*





# Equity Markets



# **“Policy responses could increase the likelihood for above average returns for risk assets like stocks and commodities.”**

(Investment Commentary June 10, 2012)

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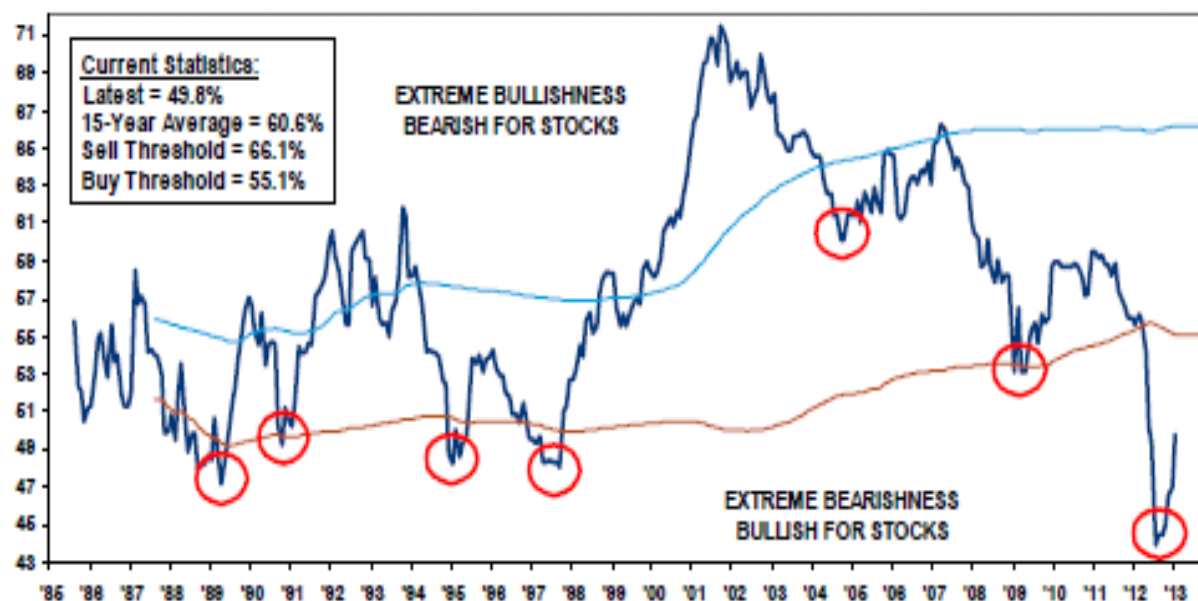
- European finance ministers \$125 billion rescue package for Spain's banking industry.
- Greece's elections.
- U.S. Supreme Court ruling on the Affordable Care Act.
- Federal Reserve extension of Operation Twist.
- European Central Bank President's pledge to "save the euro at any cost."
- Germany's Supreme Court ruling support the constitutionality of the Euro Zone Rescue Fund.
- Quantitative easing by the U.S. Federal Reserve.
- Completion of the U.S. elections.
- Completion of China's elections.
- Completion of Japan's elections.
- Resolution of the Fiscal Cliff.
- Extension of the U.S. Debt Ceiling



# Investors still have “bearish” view of the equity markets; which is positive for future returns.

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Chart 1: Sell Side Consensus Indicator (as of 31 January 2013)



Source: BofA Merrill Lynch US Equity & Quant Strategy

Note: Buy and Sell signals are based on rolling 15-year  $\pm 1$  standard deviations from the rolling 15-year mean. A reading above the blue line indicates a Sell signal and a reading below the red line indicates a Buy signal.

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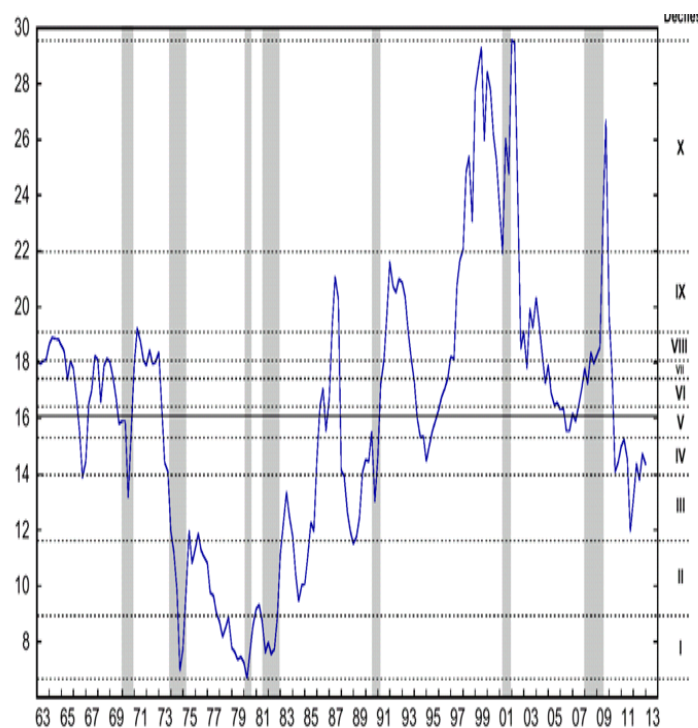
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# We are entering a P/E driven equity market after being in an earnings growth driven market.

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**S&P 500  
Price/Earnings Ratio**



Data: Standard & Poor's 500 P/E Ratio • Shaded areas represent recessionary periods.

The P/E Ratios are calculated using Reported Earnings prior to 1998 and Operating Earnings from 1998 to present.

Source: Standard & Poor's Corporation; Copyright © 2013 Crandall, Pierce & Company • All rights reserved.

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Quarter End	Earnings Per Share (\$)	Yr./Yr. Percent Change
Dec. 2012 (Est.)	23.83	0.4
Sept. 2012	24.00	-5.1
June 2012	25.43	2.3
March 2012	24.24	1.1
December 2011	23.73	8.2
September 2011	25.29	17.3

Source: Standard & Poor's





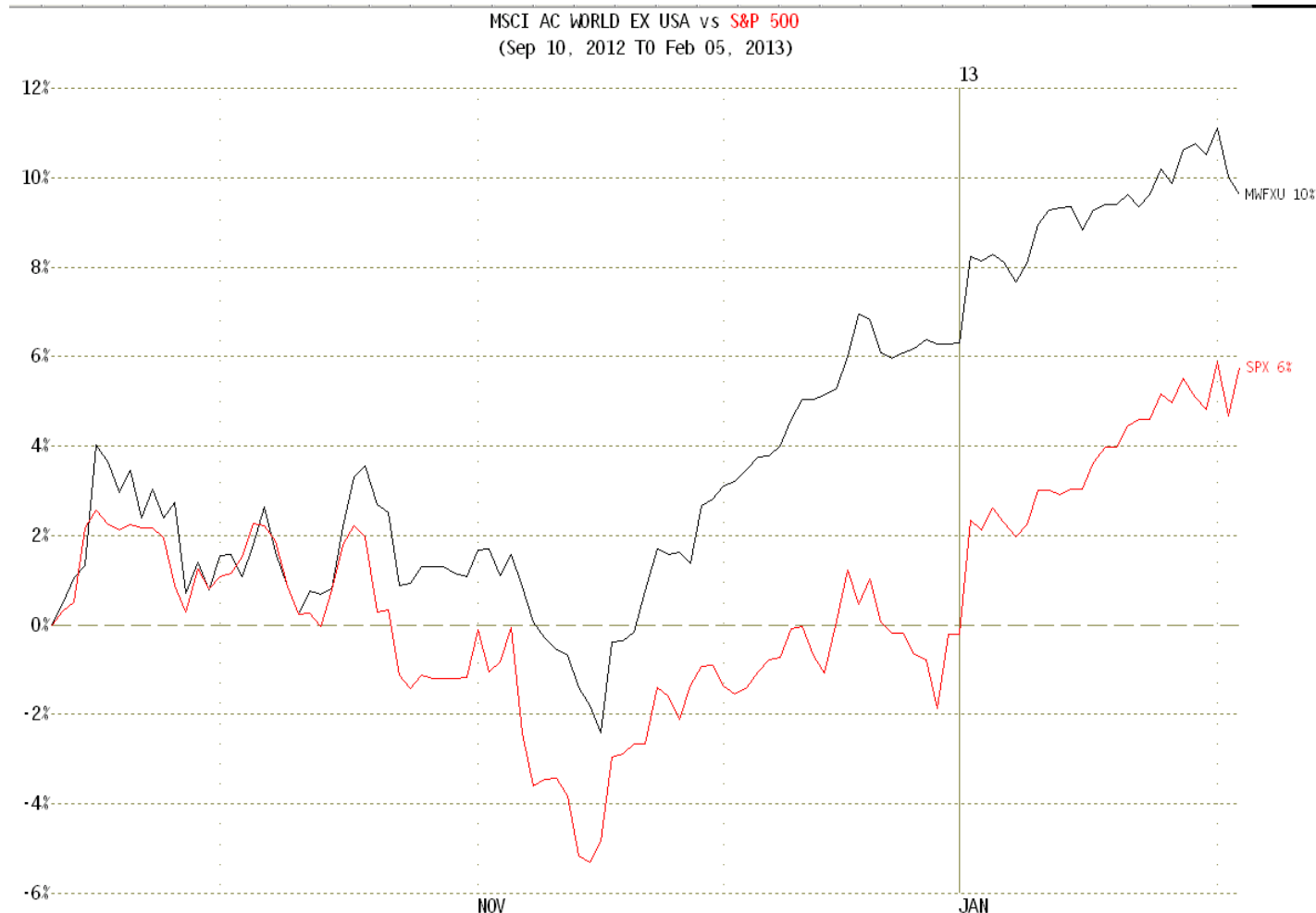
# Increasing our allocation to international equities as the risk/reward trade-off for the global equity market is in balance.

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# Relative performance for the international equity market should continue to improve.

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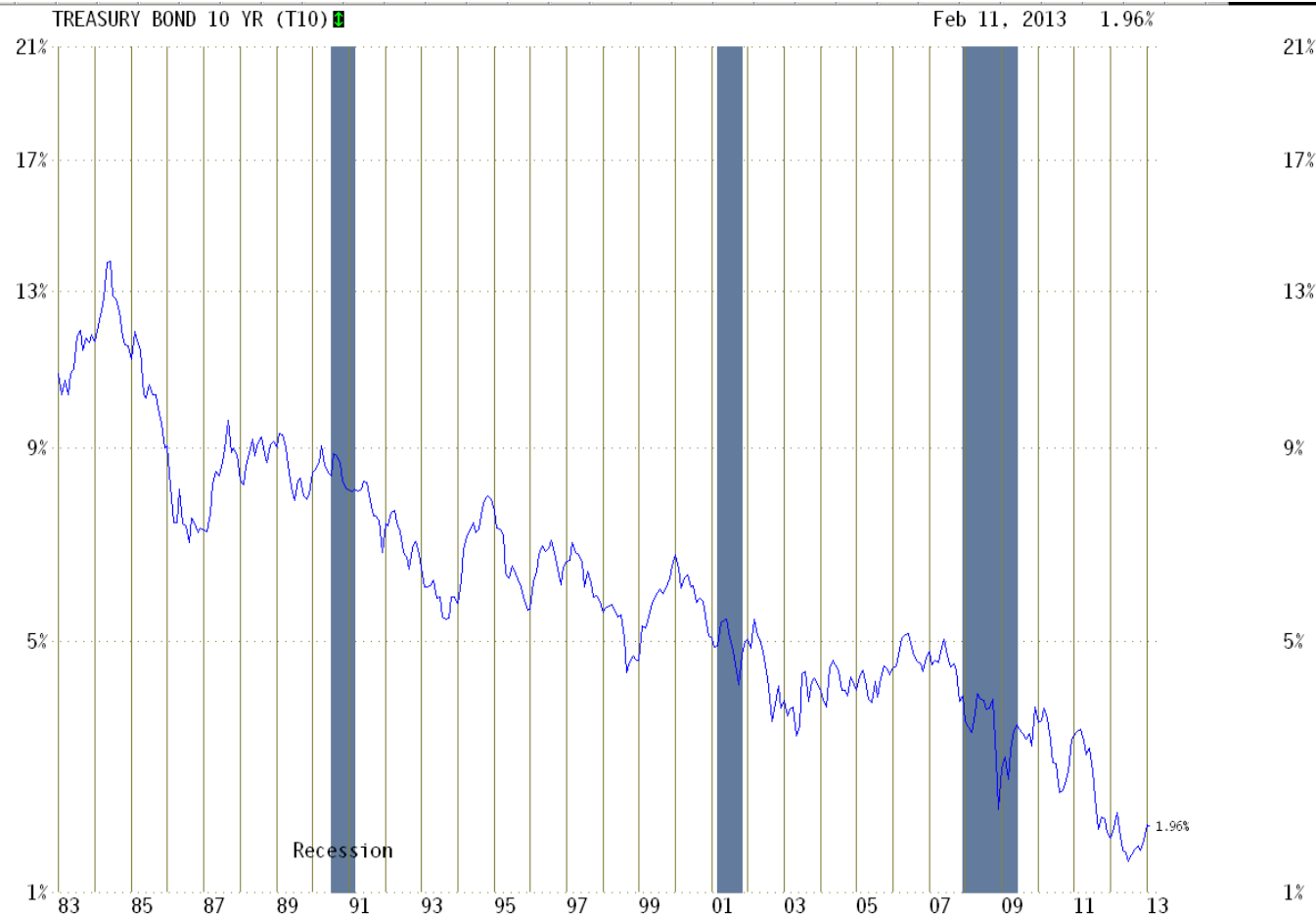


# Fixed Income



# We need to think differently about investing in bonds.

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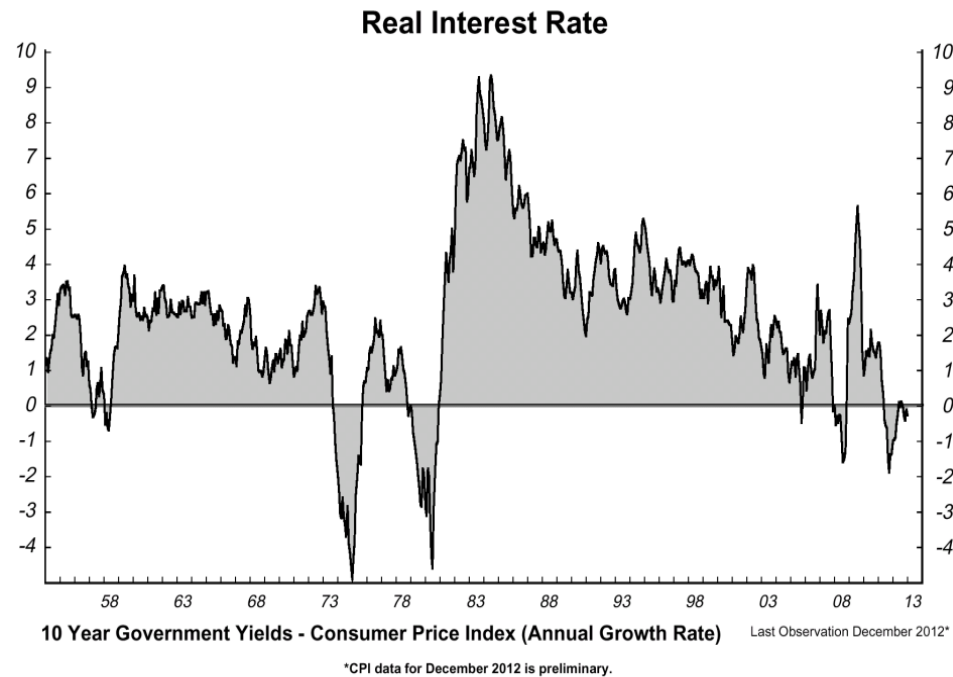


Source: Thomson Reuters



# Bonds are no longer preserving purchasing power.

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# Alternative Investments





# Alternative assets provide diversification benefits.

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Correlation Matrix

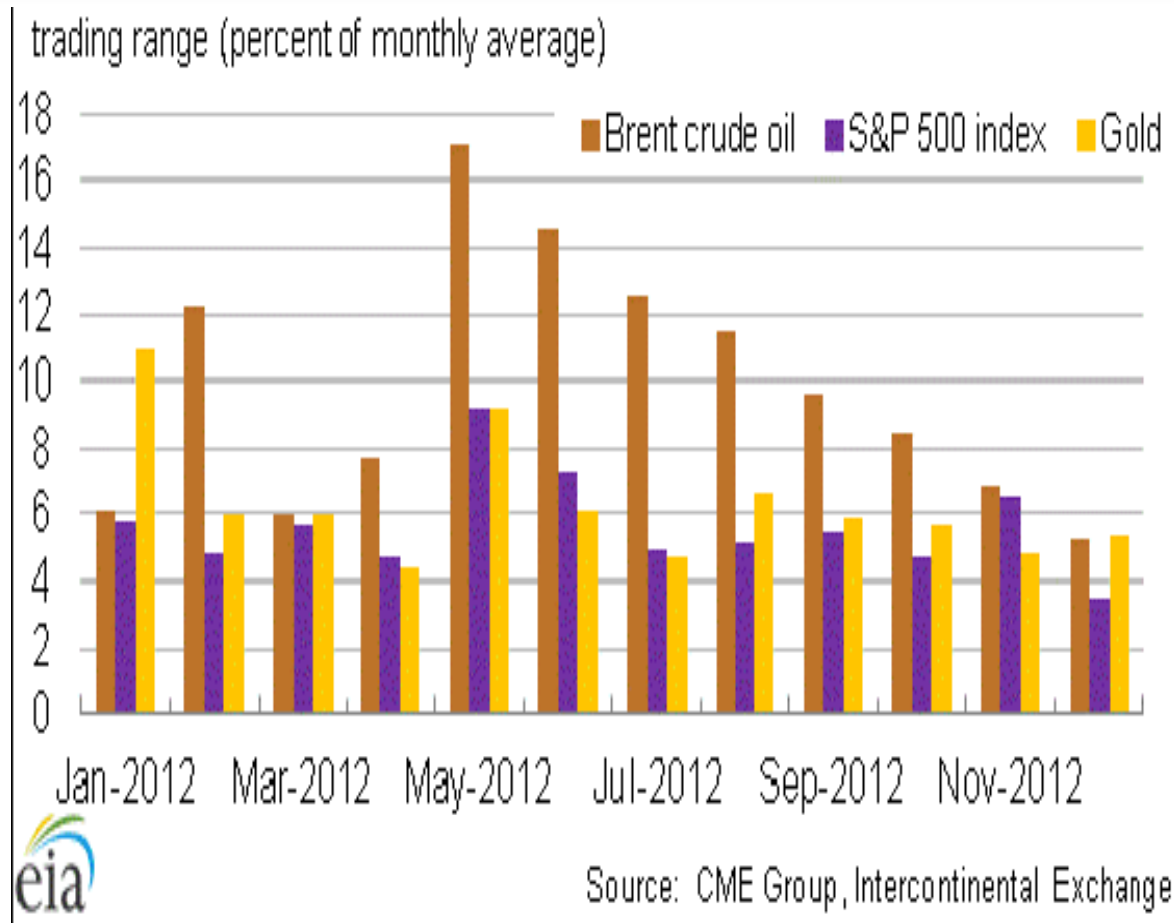
Asset Class	MSCI Global Equity Index	3 Month T-Bill	Merrill Lynch Global Govt. Bond Index	Barclays Global Macro Hedge Fund Index	MSCI World Commodity Index
MSCI Global Equity Index	1.00				
3 Month T-Bill	-0.13	1.00			
Merrill Lynch Global Govt. Bond Index	0.18	0.01	1.00		
Barclays Global Macro Hedge Fund Index	0.52	-0.13	-0.17	1.00	
MSCI World Commodity Index	0.92	-0.53	-0.28	0.76	1.0

Source: Zephyr



# Can invest in gold and oil now during a period of relatively low volatility.

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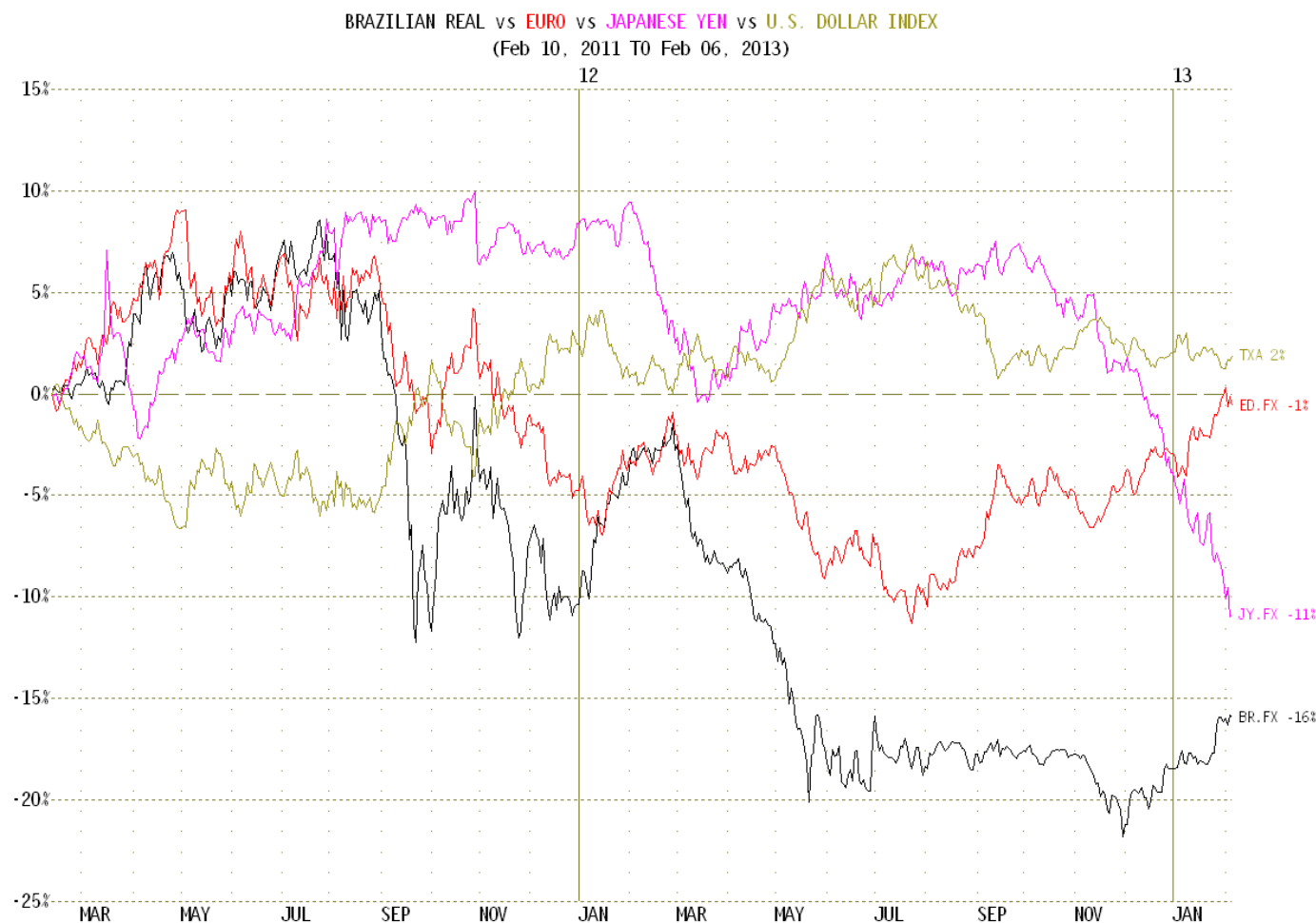
# Gold has pulled back in price...creating an opportunity for investment.

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# A basket of developed and emerging market currencies is an attractive alternative investment.

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Source: Thomson Reuters

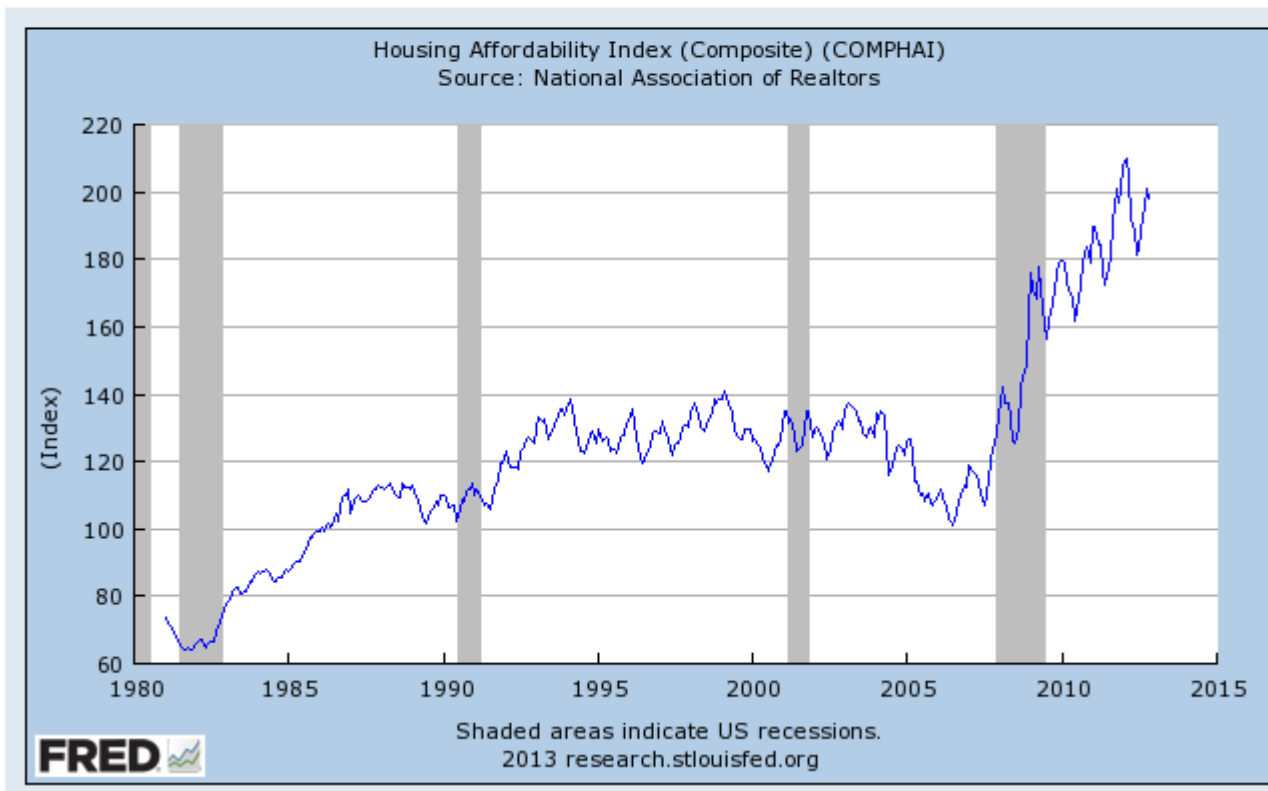
# Real estate is attractive as housing affordability has improved.

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## Housing Affordability Index (Composite) (COMPHAI)

2012-11: **198.2** Index [Last 5 Observations](#)

Monthly, Not Seasonally Adjusted, Updated: 2013-01-09 12:31 PM CST





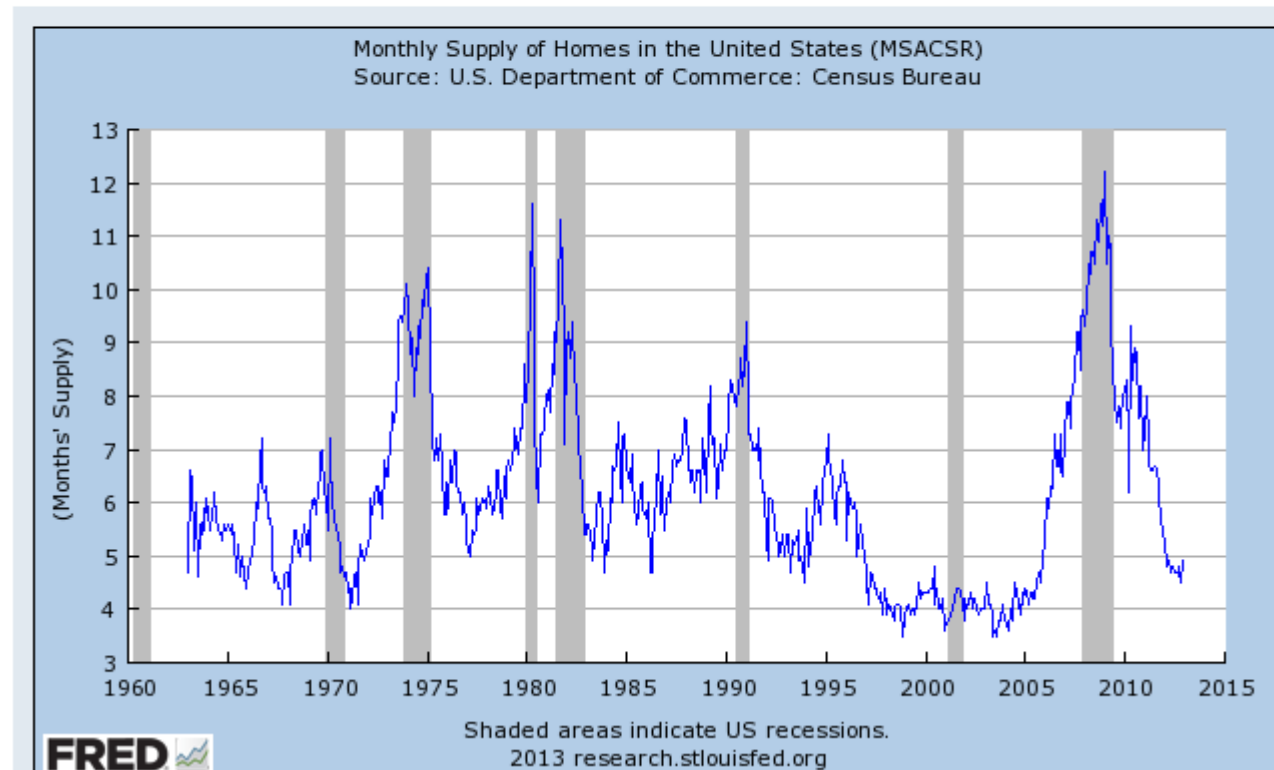
# Low inventory of housing stock should help sustain the recovery.

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## Monthly Supply of Homes in the United States (MSACSR)

2012-12: **4.9** Months' Supply Last 5 Observations

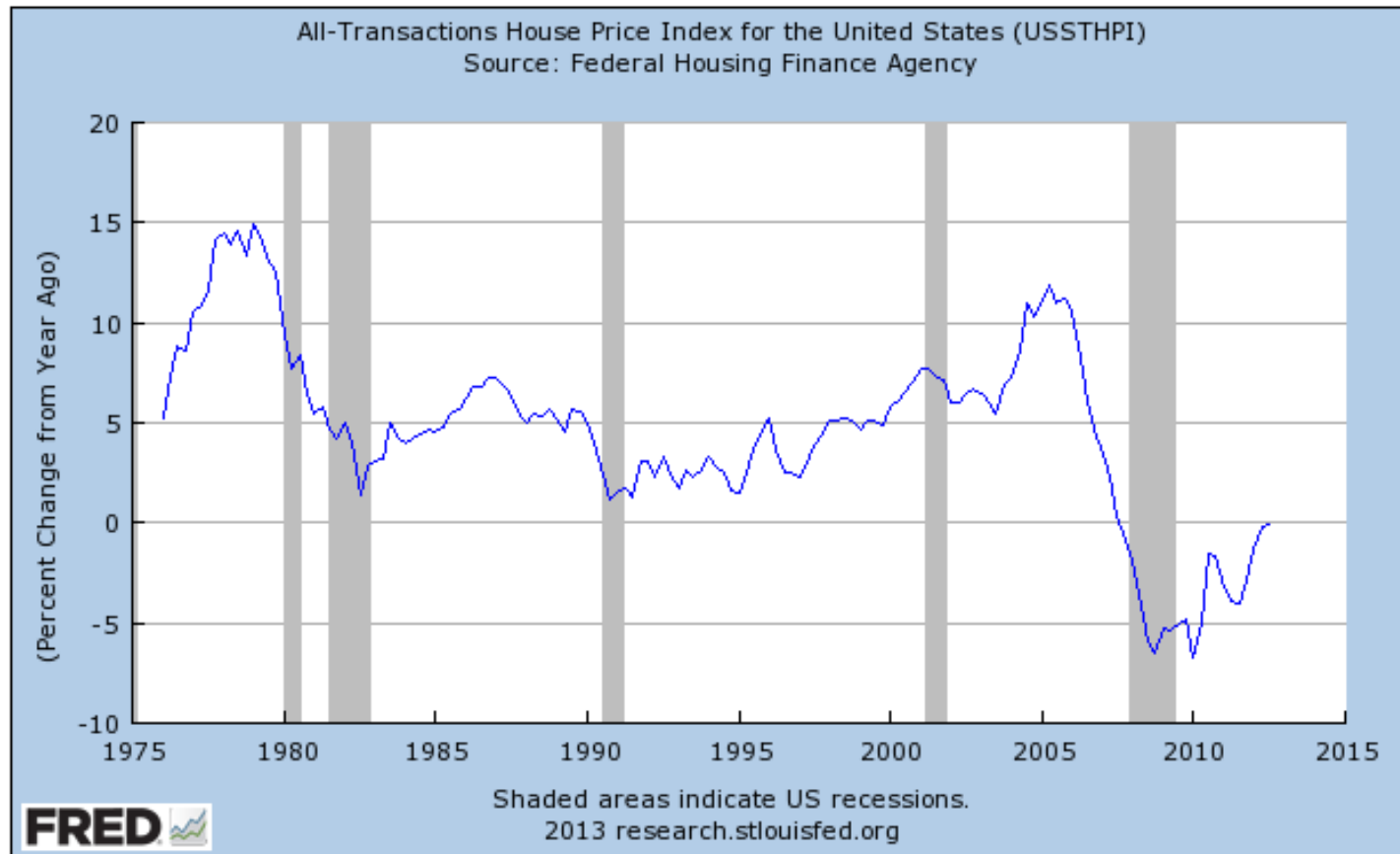
Monthly, Seasonally Adjusted, Updated: 2013-01-25 10:16 AM CST



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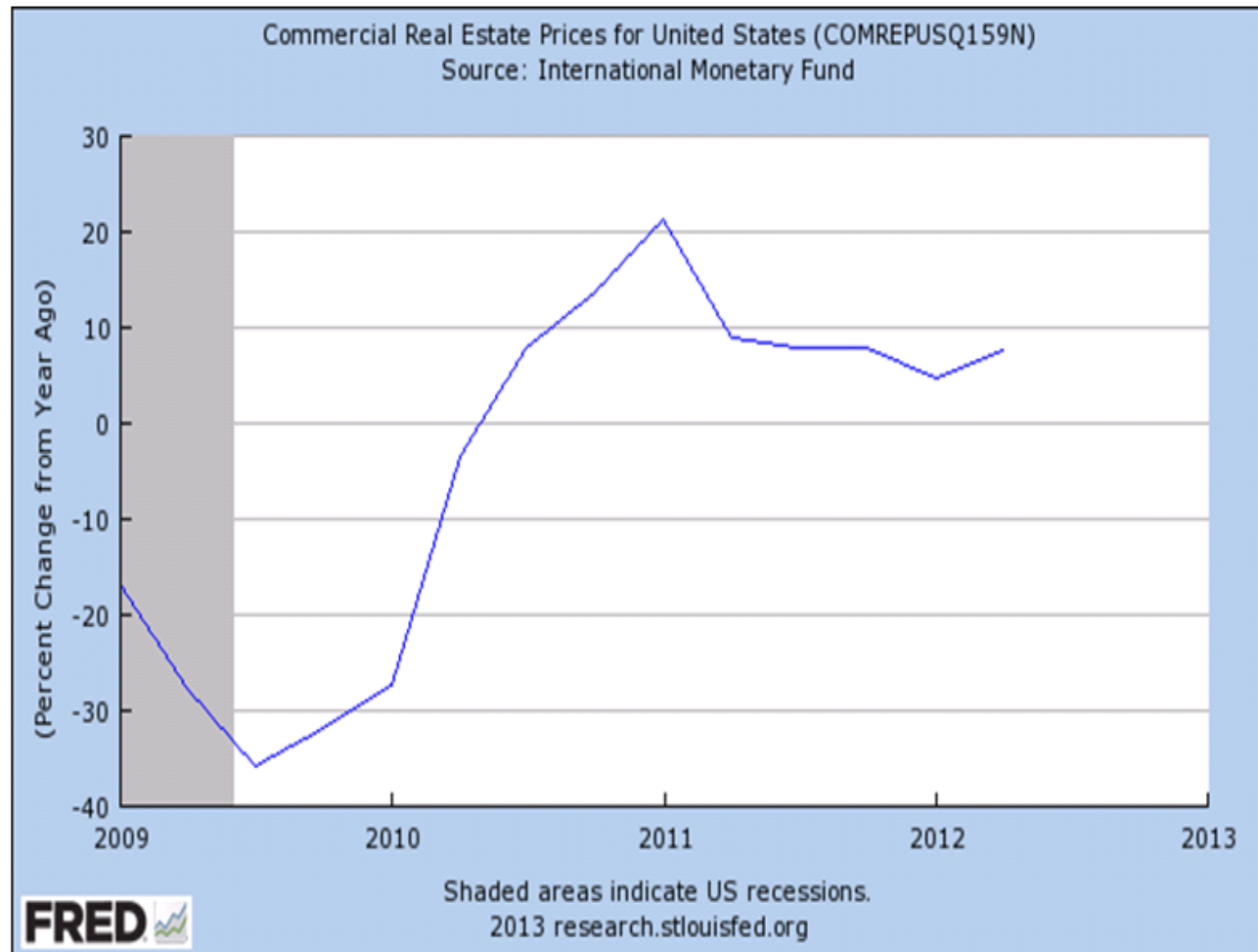
# House prices have stabilized.

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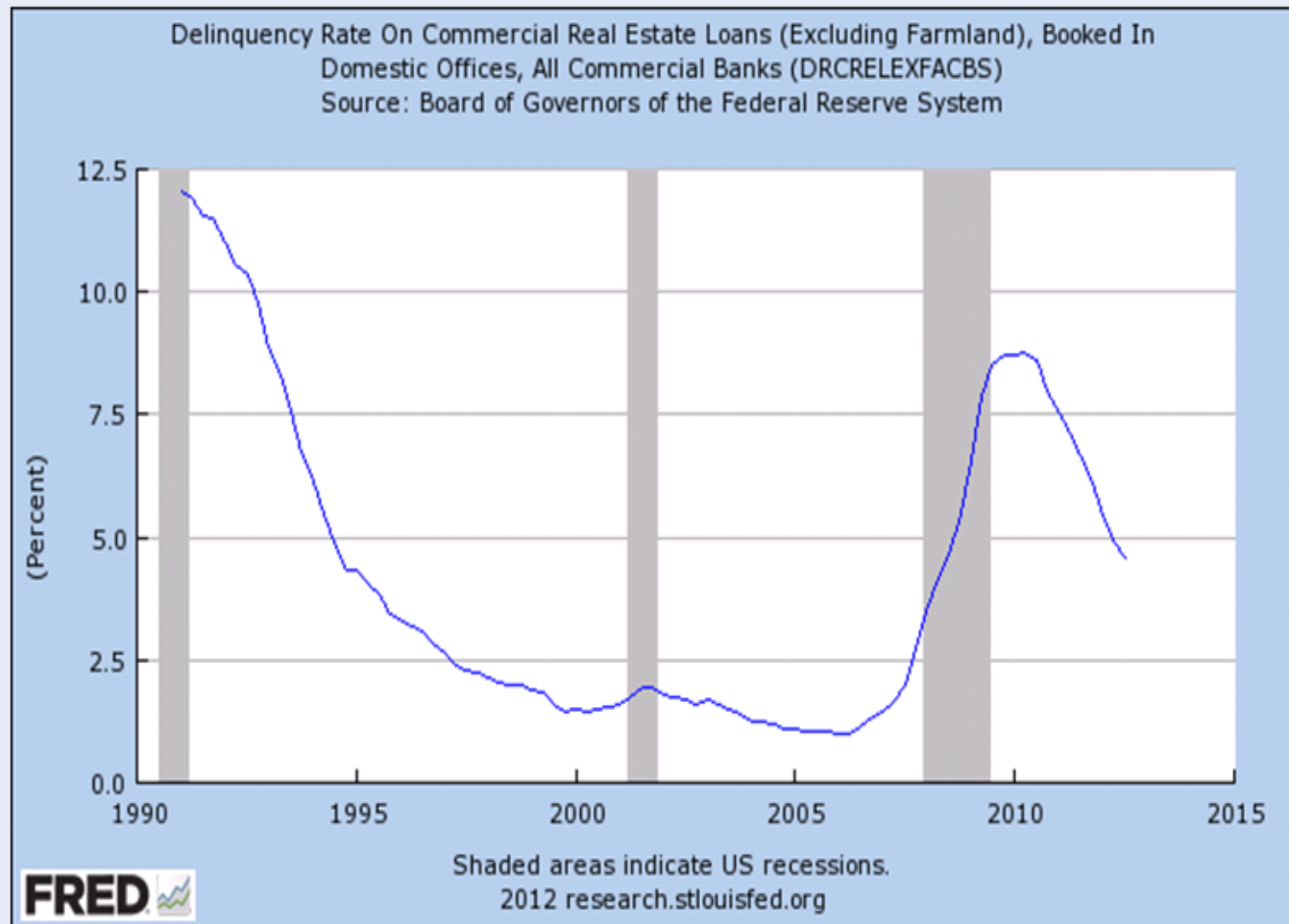
# Commercial real estate is attractive...prices have stabilized.

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# Declining delinquency rates will improve cash flows from commercial real estate.

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# Pay close attention to the risks.

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Corporate profit cycle is maturing.

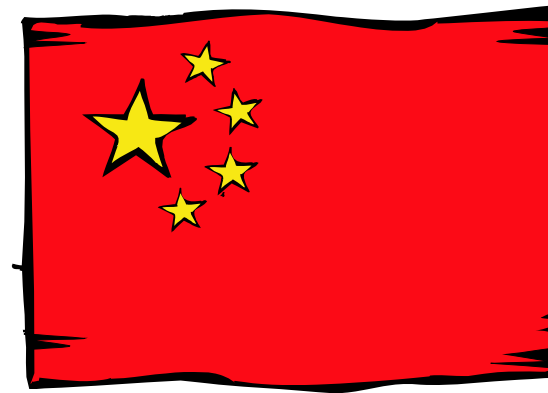




# Pay close attention to the risks.

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## Political risks



Pay close attention to the risks.

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Euro zone



# Comerica's Point of View

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- Determine and implement the correct asset allocation.
- Positive global and U.S. economic growth should provide a constructive environment for returns from risk assets.
- Controlled inflation in the range of 2% should support a continuation of accommodative monetary policies by central banks around the world.



# Comerica's Point of View

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- **Equities should perform well in 2013**
  - a) We find the U.S. and international equity markets equally attractive.
  - b) Favor defensive sectors of the market like Consumer Staples, Health Care and Utilities.
  - c) Companies with high recurring revenues in the technology, financial and consumer cyclical sectors are attractive.
  - d) Stocks with high dividend yields should perform well.



# Comerica's Point of View

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- Think differently about bond investments.
- Invest in alternative assets for their diversification benefits.
  - a) Diversify holdings in the alternative asset class.
    - i. Real estate
    - ii. Commodities
    - iii. Currencies
    - iv. Other





**Thank You!**

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# Disclosure

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Comerica's Wealth Management team consists of various divisions and affiliates of Comerica Bank and also subsidiaries of Comerica Bank including World Asset Management, Inc.; Wilson, Kemp & Associates, Inc.; Comerica Insurance Services, Inc. and its affiliated insurance agencies; and Comerica Securities, Inc. Securities offered by Comerica Securities, Inc. are not insured by the FDIC, are not deposits or other obligations of or guaranteed by Comerica Bank or any of its affiliates, and are subject to investment risks, including possible loss of the principal invested. Comerica Securities, Inc. is a broker/dealer, federally Registered Investment Advisor, member FINRA/SIPC and subsidiary of Comerica Bank.



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